Socio-Economic Research Centre
SERC 社会经济研究中心

JPMorgan Investors Engagement

Navigating Malaysia's Economic Landscape in 2024

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8 March 2024

Agenda

2024

Economic Outlook

1. Global Growth Remains Moderate and Uneven
2. Malaysia Still Growing Amid Cross-Current Headwinds and Tailwinds

Five Considerations for the World Economy in 2024

2024 Will Be A Year of Reckoning

1. *Can the US economy continue to be on a soft landing?*
2. *The Fed's hiking cycle is over; slowly normalising policy rates in 2Q-3Q.*
3. *A bumpy road ahead for China – property woes and deflation risk.*
4. *Renewed strength in energy and commodity prices.*
5. *Geopolitical risks – elevated trade tensions with China, the on-going Russia-Ukraine war and conflict in the Middle-East.*

Still slow and uneven global growth in 2024

Risks to global growth are broadly balanced

Receding hard landing risk

- Growth for 2024–2025 still below the historical (2000–19) average of 3.8%
- Elevated interest rates, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth.
- Inflation is falling faster than expected in most regions.

Downside risks to the global growth

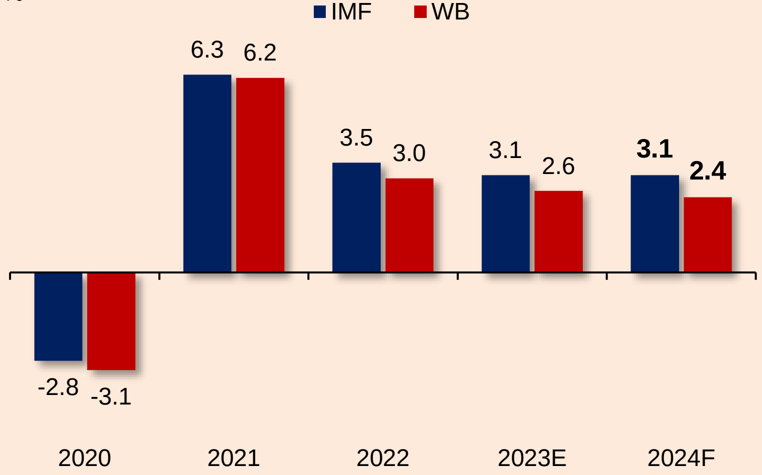
- Renewed commodity price spikes from geopolitical shocks, including a wider scale of military conflict in Israel-Hamas, continued attacks in the Red Sea—and supply disruptions - persistent underlying inflation and global supply chain disruptions.
- Deepening property sector woes in China.
- Climate change impact.

Source: International Monetary Fund (IMF);

Current and forward indicators in positive direction

Global growth estimates

%

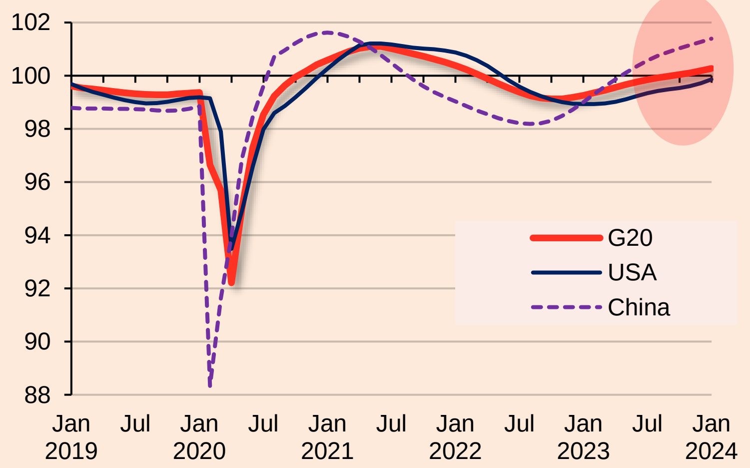


Global PMI for manufacturing & services

50=Threshold

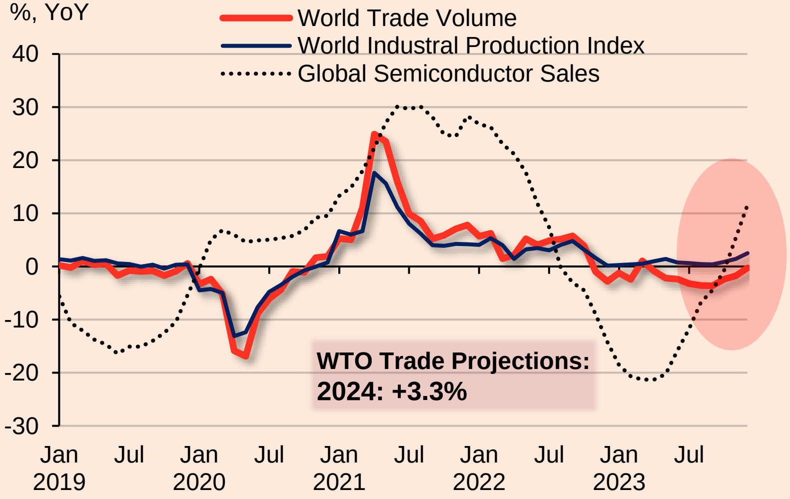
OECD Composite Leading Indicators (CLI)

100=Long-term average



Key economic activities

%, YoY



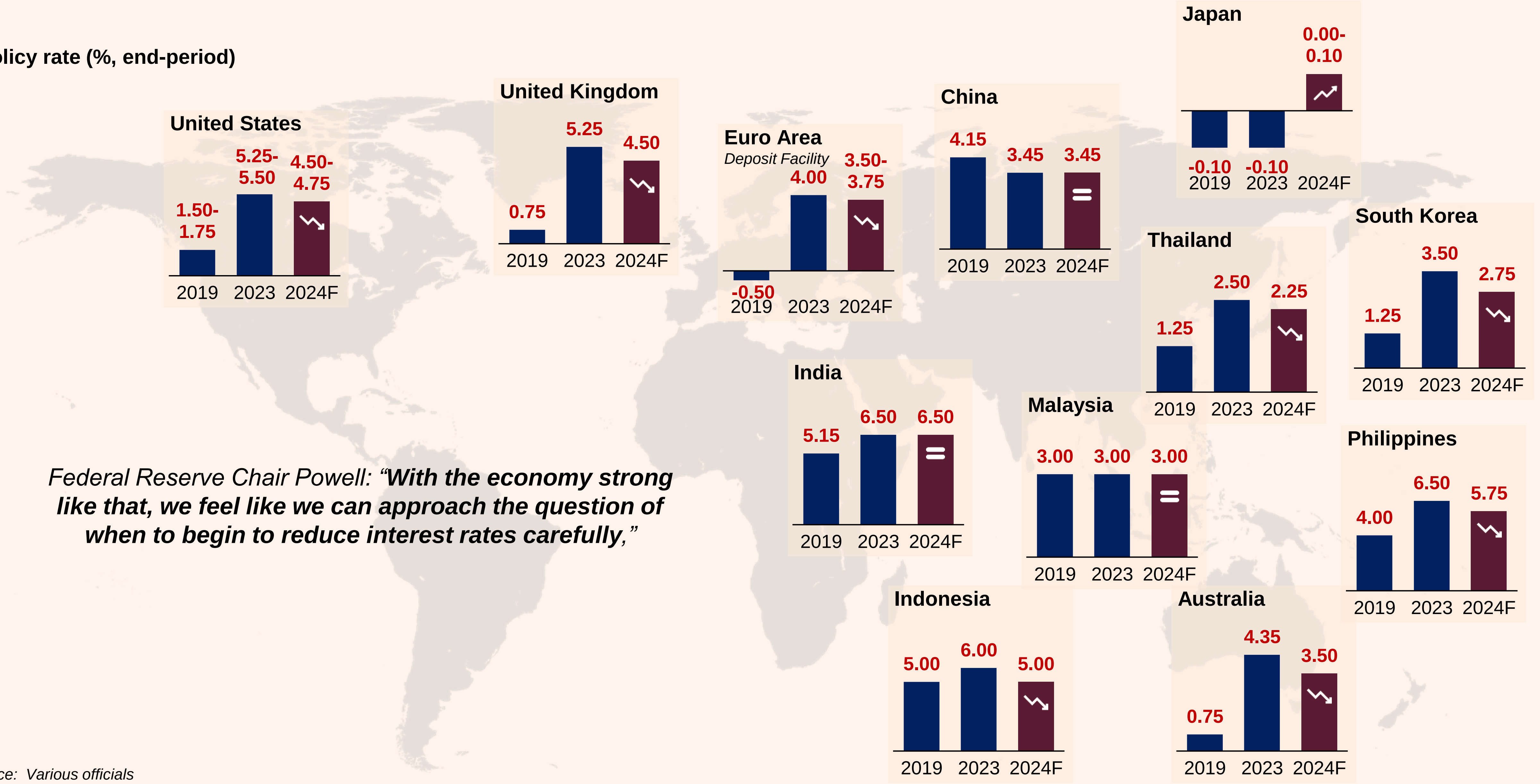
Key indicators bottoming out

- Global manufacturing PMI returned to 50-pt after 16 consecutive months below the threshold, signalling an improvement amid persistent challenges in the manufacturing sector.
- OECD composite leading indicators continued its upward trajectory.
- Global semiconductor sales have bottomed out and registered positive growth since Nov 2023.
- Despite some positive indications, world trade volume contracted for the ninth consecutive month in Dec 2023, indicating a cautious outlook for global demand recovery.

Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; Semiconductor Industry Association

Global monetary policy tracker

Policy rate (%, end-period)



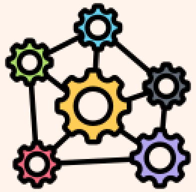
*Federal Reserve Chair Powell: “**With the economy strong like that, we feel like we can approach the question of when to begin to reduce interest rates carefully,**”*

Source: Various officials

Six Considerations for the Malaysian Economy in 2024 and beyond

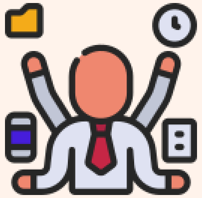
1. *Levers of change will enhance economic and investment prospects.*
   (MADANI Economy Framework, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), Mid-Term Review of 12th Malaysia Plan (MTR 12MP) 2021-2025)
2. *Exports recovery from a drag to positive driver.*
3. *Gradual approach and proper sequencing of reforms.*
4. *Inflation risk may reaccelerate.*
5. *But, interest rate on hold at 3.00%.*
6. *The Ringgit is undervalued.*

Issues and challenges hindering Malaysia’s growth path



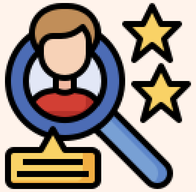
Economic complexity

Improved marginally



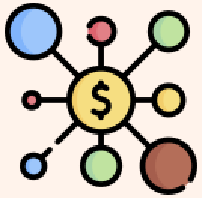
Labour productivity

Stagnated



Talent

Shortage and skills mismatch



Product & market diversification

Improved marginally

Ease of doing business

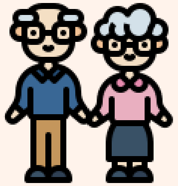
Need to improve

Private investment

FDI hampering; DDI decreasing

Fiscal space

Limited



Demographic trend

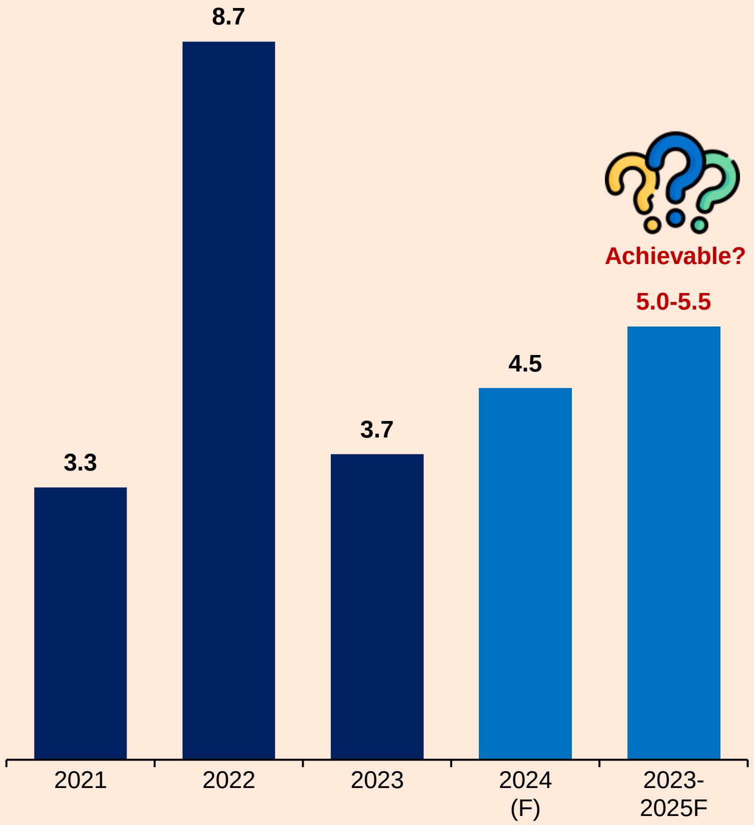
Aged society

The Malaysian economy is on course, but downside risks remain

Malaysia's real GDP growth (%, YoY)

Quarterly

Annual



Note: SERC estimate; 2023-2025F was forecasted in MTR of 12MP

Drivers of economic growth in 2024

Positive expansion in all sectors

- Broad-based growth, led by the services sector as intermediate and final services groups, is anticipated to rise further, driven by domestic consumption and improved export activities.
- Recovery in the manufacturing sector, thanks to a gradual recovery in exports of electronics and electrical products.
- Improved growth in the agriculture sector and a turnaround in the mining sector.
- All subsectors of the construction sector will expand.

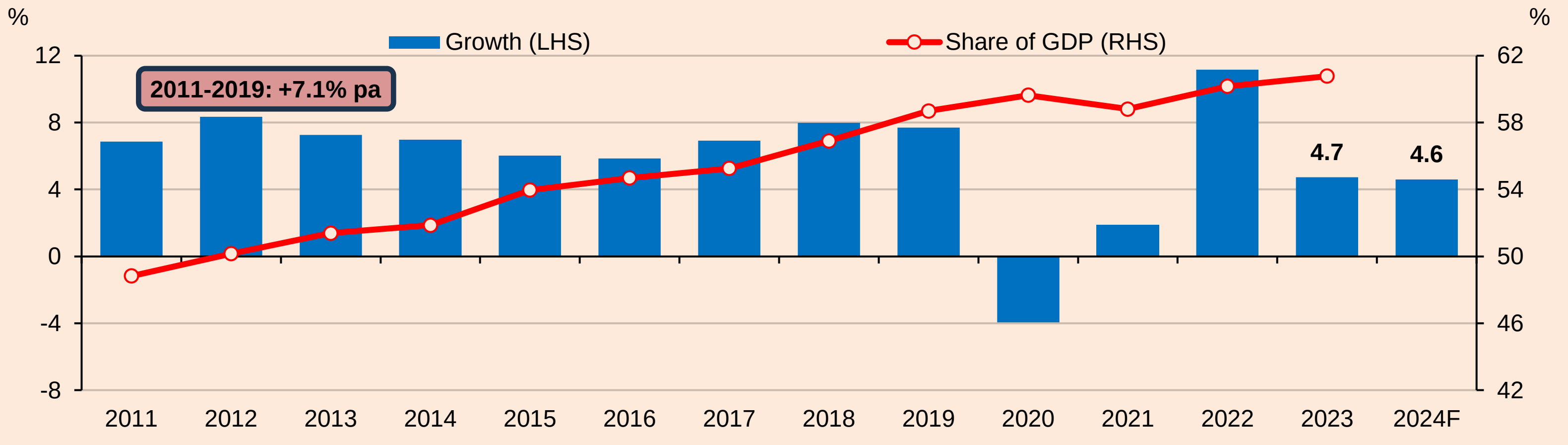
Can domestic demand continue to hold?

- Private sector expenditure and improving global demand.
- Implementing various business policies and blueprints is expected to provide a conducive business and investment environment.
- Private consumption supported by steady labour market conditions amid subsidy rationalisation and cost of living pressures.

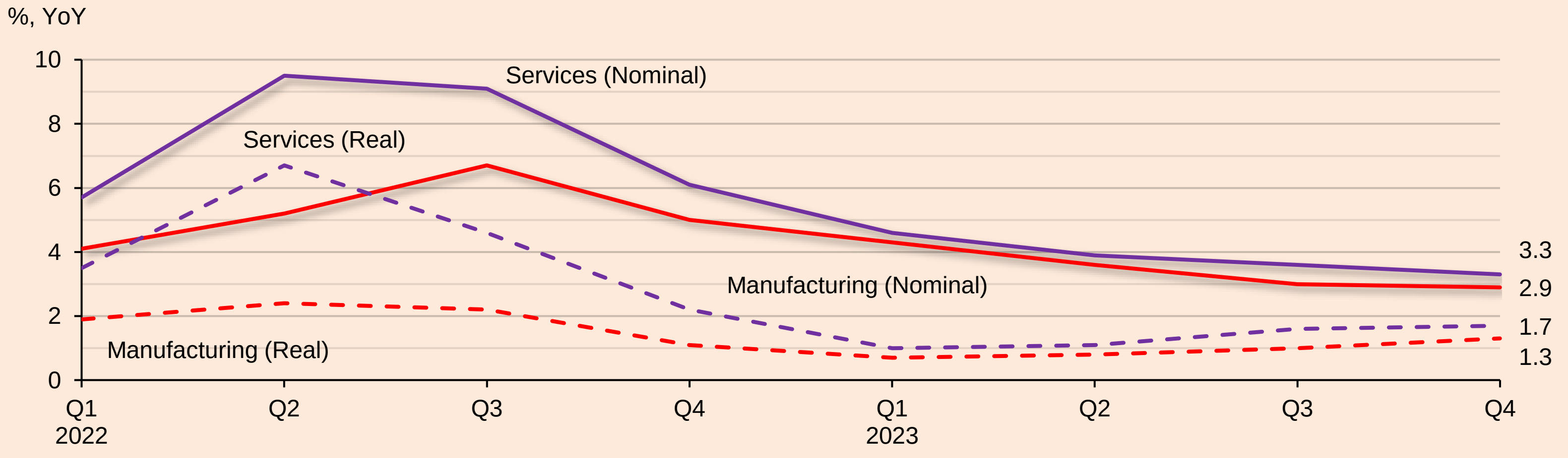
Source: Department of Statistics Malaysia (DOSM); Ministry of Finance (MOF)

Consumers more cautious with discretionary spending

Private consumption (60.8% of GDP in 2023)



Real wage growth



Source: DOSM; MOF

Supporting factors

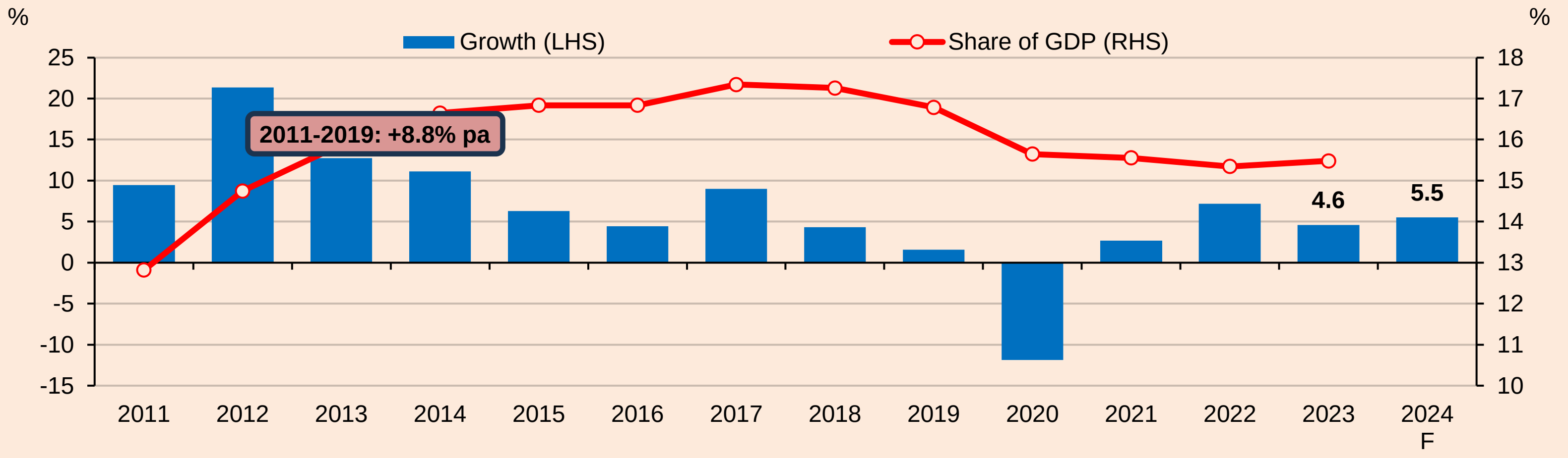
- Stable labour market conditions (Jobless rate: 3.3% at end-2024).
- Improved income growth.
- Sumbangan Tunai Rahmah (RM10.0 billion for almost 9 million recipients).
- Special cash incentives of RM2,000 for 1.7 million civil servants and RM1,000 for 971,000 pensioners.

Dampening factors

- Increasing cost of living and inflation risk.
- Service tax scope expanded (includes logistic, brokerage, underwriting and karaoke services) with rate increase to 8% from 6% (excluding food and beverages, telecommunication services, parking and logistic services).
- 10% tax for online shopping on Low Value Goods (LVG) < RM500 from overseas.
- Targeted subsidy rationalisation in phases, e.g. diesel.
- High-Value Goods tax of 5% to 10%, starting 1 May 2024.

Navigating private investment with increasing costs pressure

Private investment (15.5% of GDP in 2023)



Outstanding loans to the business sector*

Source: DOSM; MOF

Supporting factors

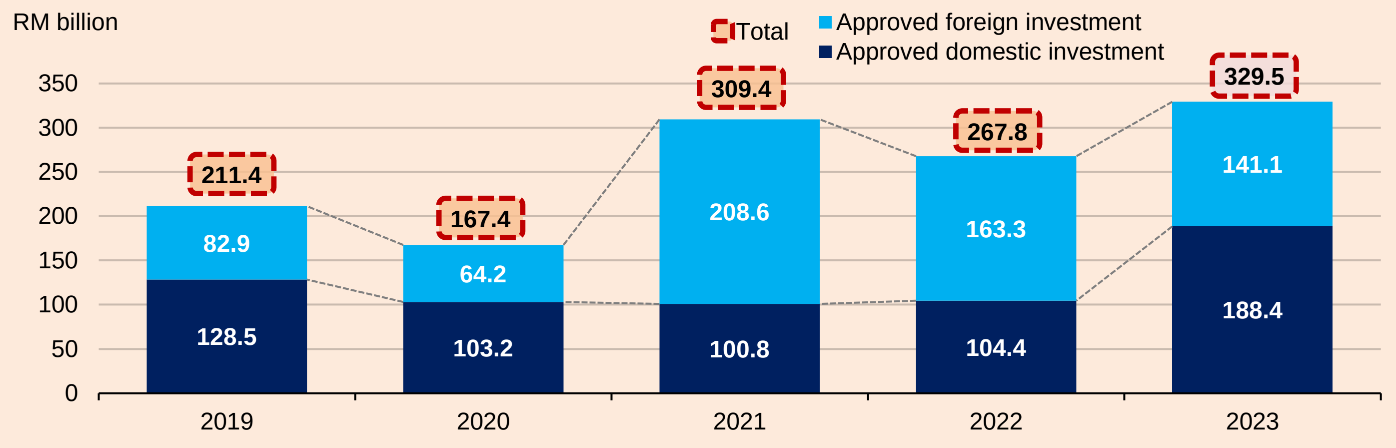
- Improved business sentiments on clearer economic policy direction.
- Realisation of approved investments, mainly in the electronics and electrical products, transport equipment, and information and communications subsectors.
- New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR) and the Mid-Term Review of the 12th Malaysia Plan (2021-2025).

Dampening factors

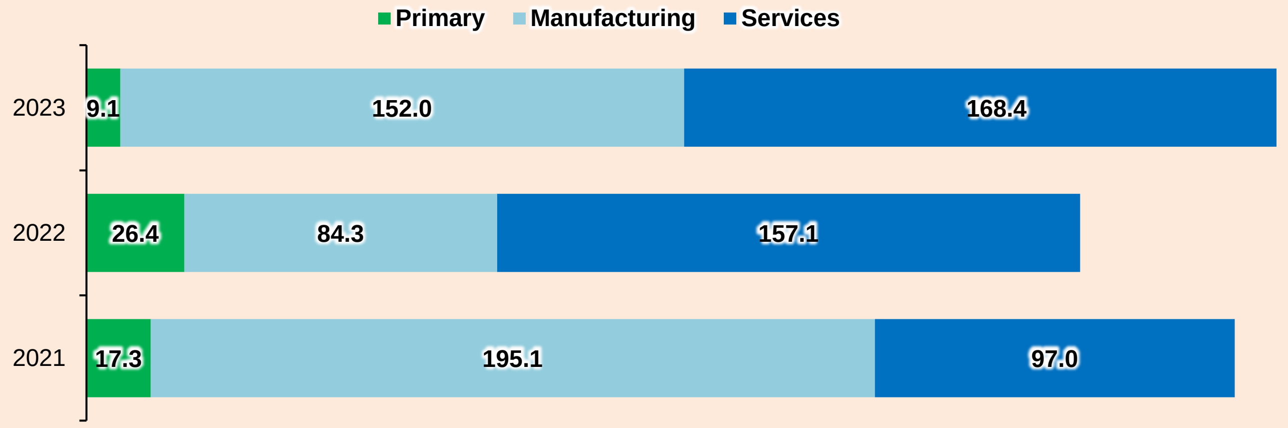
- Continued weak global economic growth.
- Concerns about business costs pressure; ESG compliance and climate change-induced disruptions.
- Targeted subsidy rationalisation in phases, e.g. diesel, petrol, cooking oil, etc.
- Weak Ringgit caused higher imported value of machinery and equipment.

Catalysts to private investment

MIDA's approved DDI and FDI



MIDA's approved Investment by major sector



Source: *Malaysian Investment Development Authority (MIDA)*

Some notable approved investment projects

Masdar: **US$8 billion** for up to 10GW of renewable energy projects

ALTON: **RM2 billion** in the next 7 years on state-of-the-art facility

Tesla: Setting up a vast network of fast-charging and regular-charging stations; establish its state-of-the-art head office and service center; and experience centers

aws: Amazon Web Services (AWS) **RM25.5 billion (USD6 billion)** by 2037 to open a Cloud Computing Infrastructure

intel: **US$7 billion** expansion for its chip assembly and testing factory.

Infineon: To build the world's largest 200mm SiC (silicon carbide) Power Fab and invest additionally up to **€5 billion** over the next 5 years

Texas Instruments: Potential investment of up to **RM9.6 billion** to expand manufacturing operations

NationGate: Partnering with xFusion partner to invest **RM1.7 billion** to open new facility

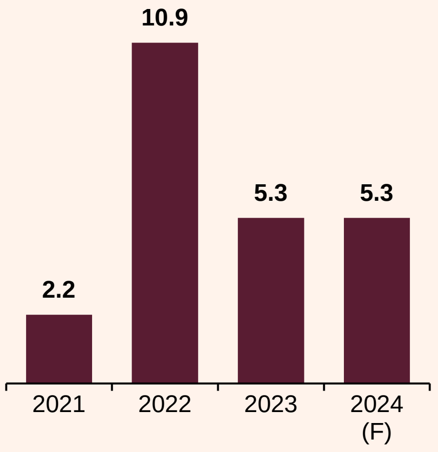
BOSCH: Invest **RM1.62 billion** to open semiconductor backend

Elna PCB Deepens Root In Penang With RM1 Billion Expansion Plan

All economic sectors to register positive growth in 2024

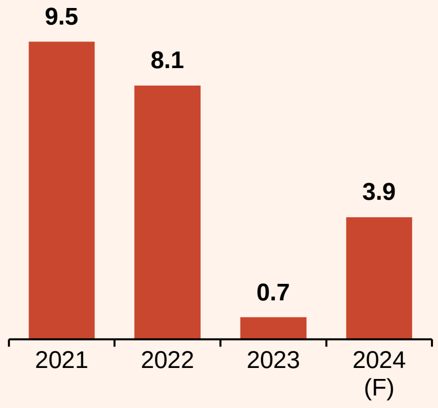
Real GDP growth by sector (%)

Services



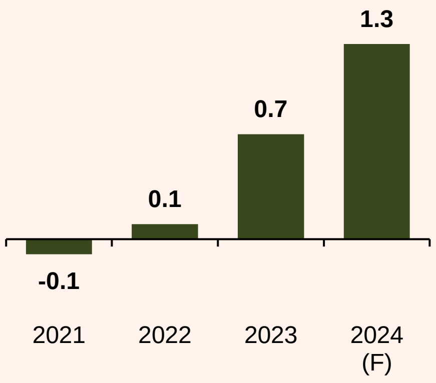
- Domestic consumption supports retailing, restaurants, accommodation and communication segments
- Higher trade-related activities help the wholesale trade, transport and storage subsectors

Manufacturing



- Recovering external demand helps export-oriented industries, particularly E&E products
- Favourable domestic-oriented industries, backed by higher output in transport equipment and construction-related segments, in line with continued growth in consumption and investment

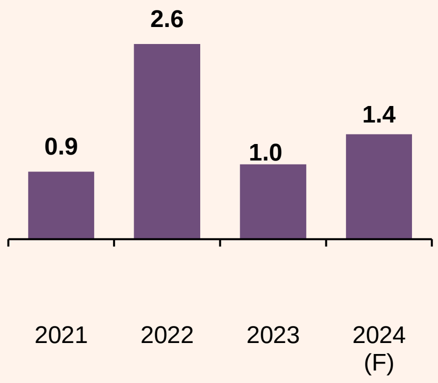
Agriculture



- Higher production of crude palm oil (CPO), other agriculture and livestock
- CPO production supported by minimal impact expected from the El Nino, better labour supply, increased matured areas and higher oil extraction rate.

CPO price:
RM4,000/tonne in 2024
(RM3,810/tonne in 2023)

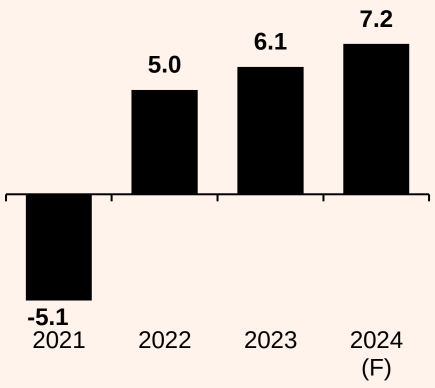
Mining and Quarrying



- Recovery in production of natural gas from new and existing gas fields, and crude oil and condensates
- Anticipation of higher demand on positive global outlook.

Brent crude oil price:
US$85/barrel in 2024
(US$83/barrel in 2023)

Construction

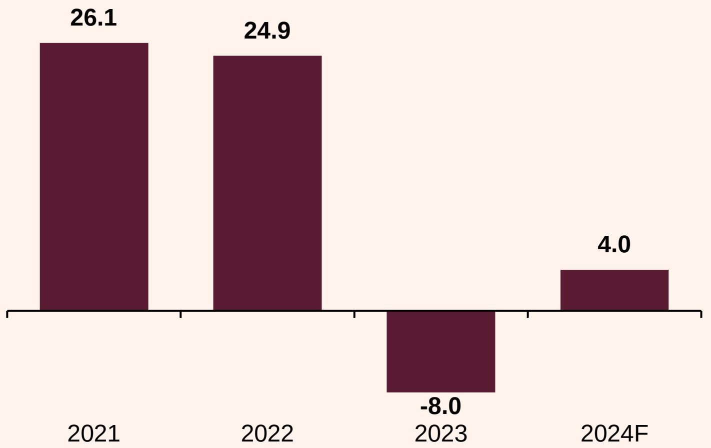


- Expansion across all sub-sectors
- Strategic infrastructure and utilities projects

Source: DOSM; MOF

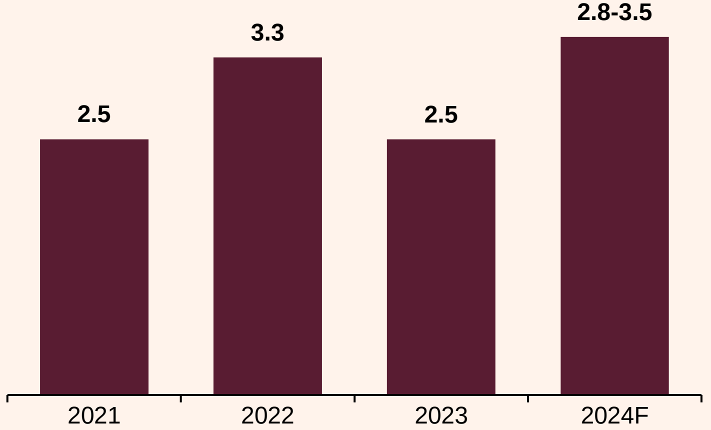
Exports recovery; inflationary risk; solid job market

Gross Export Growth (%)



- Anticipate better performance in global trade and improved prospects in the commodity sector
- The trade expansion effects from RCEP and CPTPP
- Steady demand for semiconductor and upcycle trend in E&E
- Higher demand for petroleum products, chemicals and chemical products, manufactures of metal, palm oil and mining goods

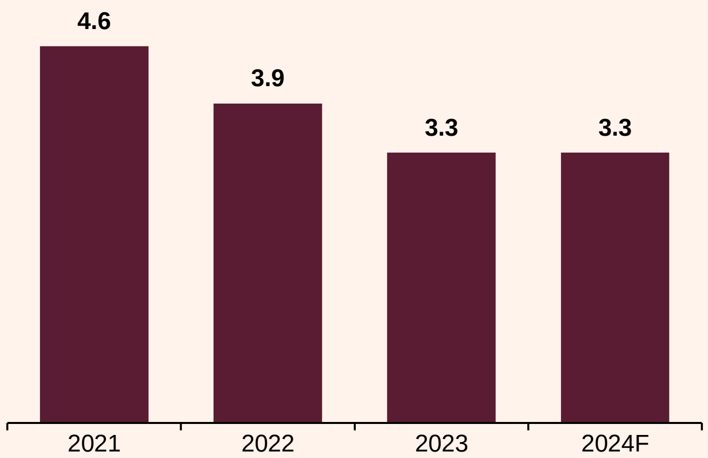
Inflation (%)



- Both headline and core inflation have moderated, mainly due to easing cost pressures
- Gradual shift towards a targeted subsidy mechanism
- The Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions
- Risks come from fluctuation in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties, and climatic conditions

Unemployment Rate (%)

end-period

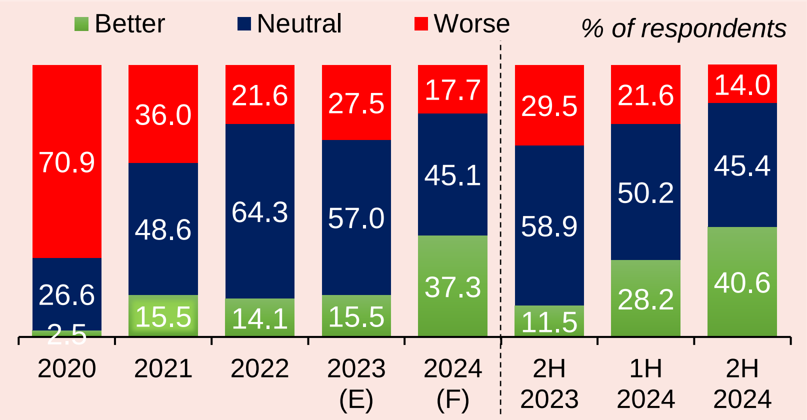


- Stable domestic and external economy
- More demand-driven skill training programmes
- More conducive working environment for women
- Expanding social protection coverage to all workers

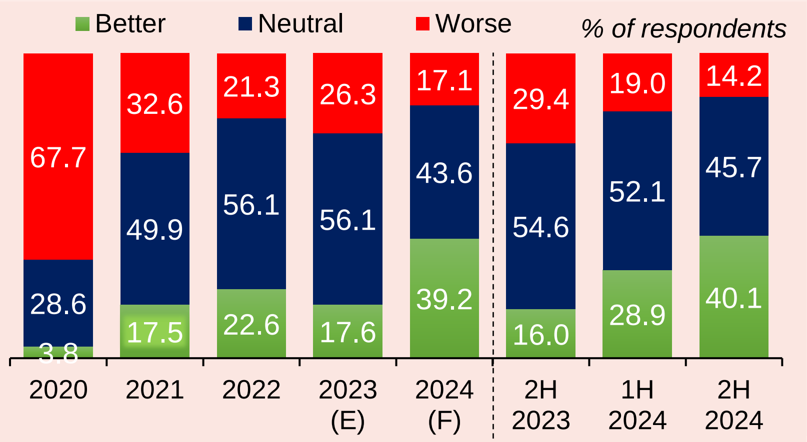
Source: DOSM; MOF

ACCCIM M-BECS: What are the concerns for businesses

Economic Condition



Business Condition



Top 3 Business's Concerns

- Reduced consumer purchasing power (91.9%)
- Persistent cost pressures (90.6%)
- Persistently weakening Ringgit (90.3%)

Top 3 Government's Priorities Should Be

- Stable Ringgit (58.0%)
- Ease the cost of doing business (52.0%)
- Clarity and consistency in business-friendly policies (41.1%)

Top 3 Business's Extremely Concerns

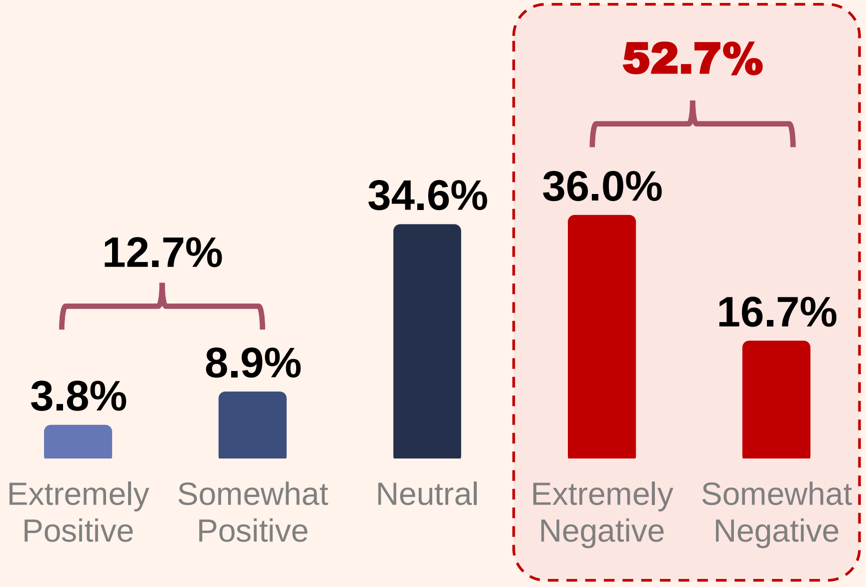
- Persistently weakening Ringgit
- Reduced consumer purchasing power
- Services Tax's rate increase and scope expansion

Top 3 Business's Somewhat Concerns

- Over-regulation and high compliance cost
- Persistent cost pressures
- Services Tax's rate increase and scope expansion

Note: E=Estimates; F=Forecast
This is taken from the Associated Chinese Chamber of Commerce and Industry of Malaysia (ACCCIM) Malaysia's Business and Economic Conditions (MBECS) 2H 2023 & 1H 2024F. This survey was conducted between 6 November 2023 and 5 January 2024, covering 684 respondents.

ACCCIM M-BECS: The Ringgit's depreciation has significant spillover effects on the Malaysian economy.



- **The Ringgit's depreciation was mainly driven by external factors**, such as evolving market expectations concerning higher terminal interest rates in major economies, weak investors' sentiment, and does not reflect Malaysia's economic fundamentals.
- While Bank Negara Malaysia conducts FX operations to stem excessive volatility and ensure orderly market conditions, **the Government has to address the structural weaknesses through reforms to enhance economic and financial resilience.**

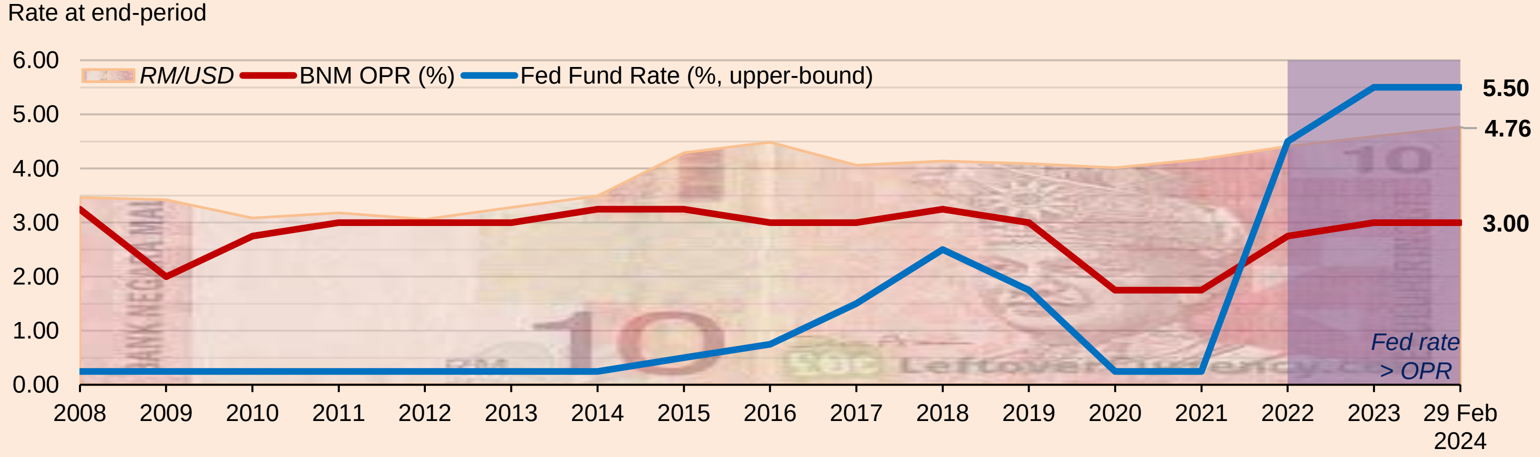
1	**Bear with higher costs and suffer margin squeeze**	52.6%
2	**Increase selling price**	47.7%
3	**Renegotiating with suppliers**	29.8%
4	Sourcing from cheaper inputs, including domestic materials	21.5%

- Rebuild the strength of the fiscal balance sheet; containing debt and liabilities
- Strengthen the current account surplus and reserves accumulation
- Improving the economy through higher quality investment
- Ensuring stable prices and better corporate earnings to attract inflows of investible funds.

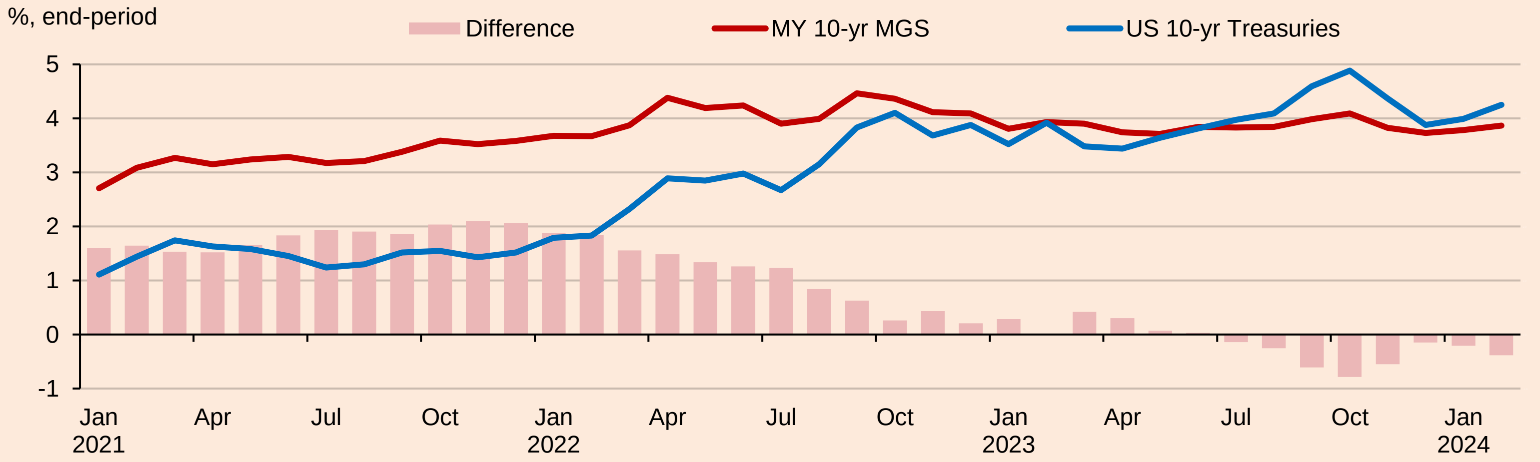
Note: This is taken from the Associated Chinese Chamber of Commerce and Industry of Malaysia (ACCCIM) Malaysia's Business and Economic Conditions (MBECS) 2023H2.

BNM's OPR to hold steady at 3.00% in 1H 2024; the Ringgit is undervalued

BNM OPR vs. Fed Funds Rate vs. RM/USD



Yields: MY 10-year MGS vs. US 10-year Treasuries

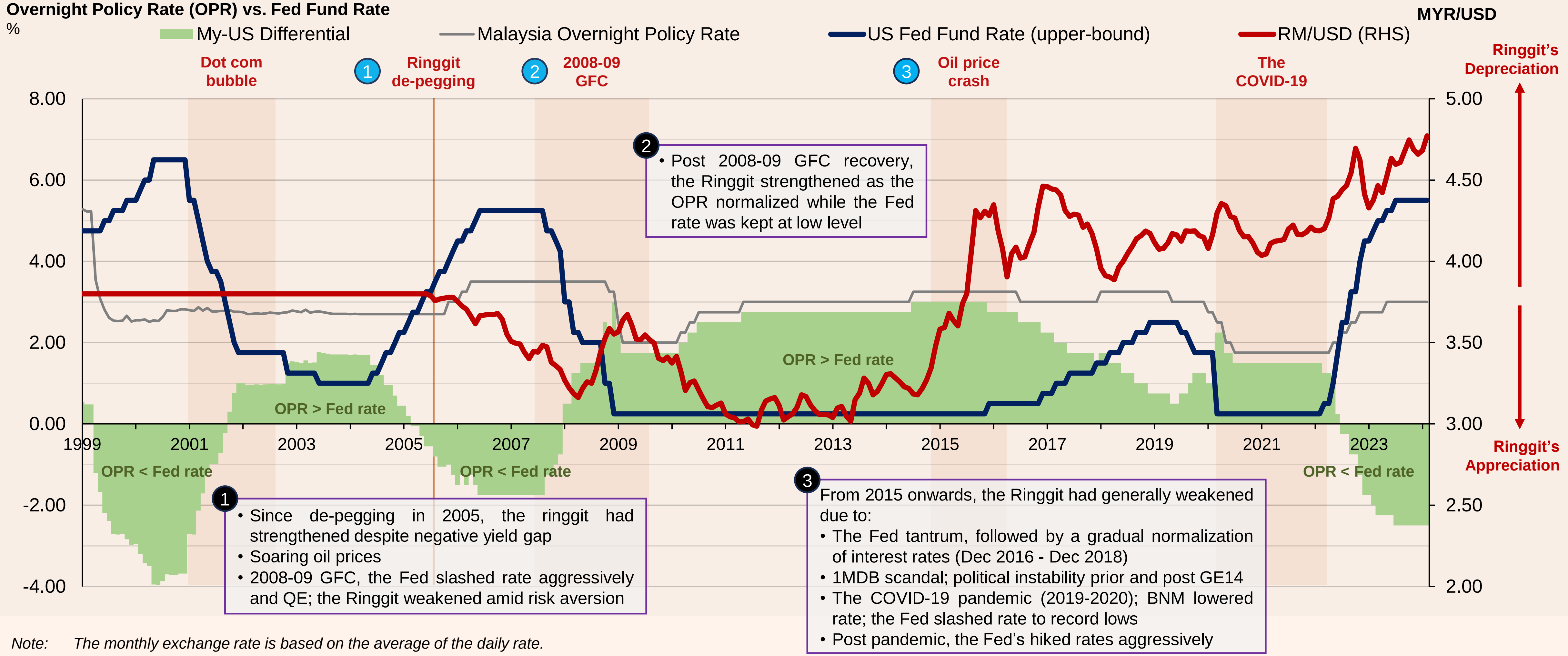


Source: Fed; BNM; US Treasury Department

OPR set to stay put at 3.00%

- Growth support remains the policy priority.
- Subsidy rationalisation-induced inflation will restrain demand.
- MY-US interest rate differentials would cap the Ringgit's appreciation against the US dollar.
- BOJ's abandonment of a negative interest rate policy could induce financial volatility.
- RM/USD scenarios:
  - Scenario 1:
    No cut in the Fed funds rate (1H 2024): RM4.75
  - Scenario 2:
    Cut in the Fed funds rate (2H 2024): RM4.50

Since 2005, the Ringgit had depreciated by an average of 1.0% pa against the US dollar (appreciated in eight years: 2006, 2007, 2008, 2010, 2011, 2018, 2021)



Note: The monthly exchange rate is based on the average of the daily rate.
Source: Bank Negara Malaysia (BNM)

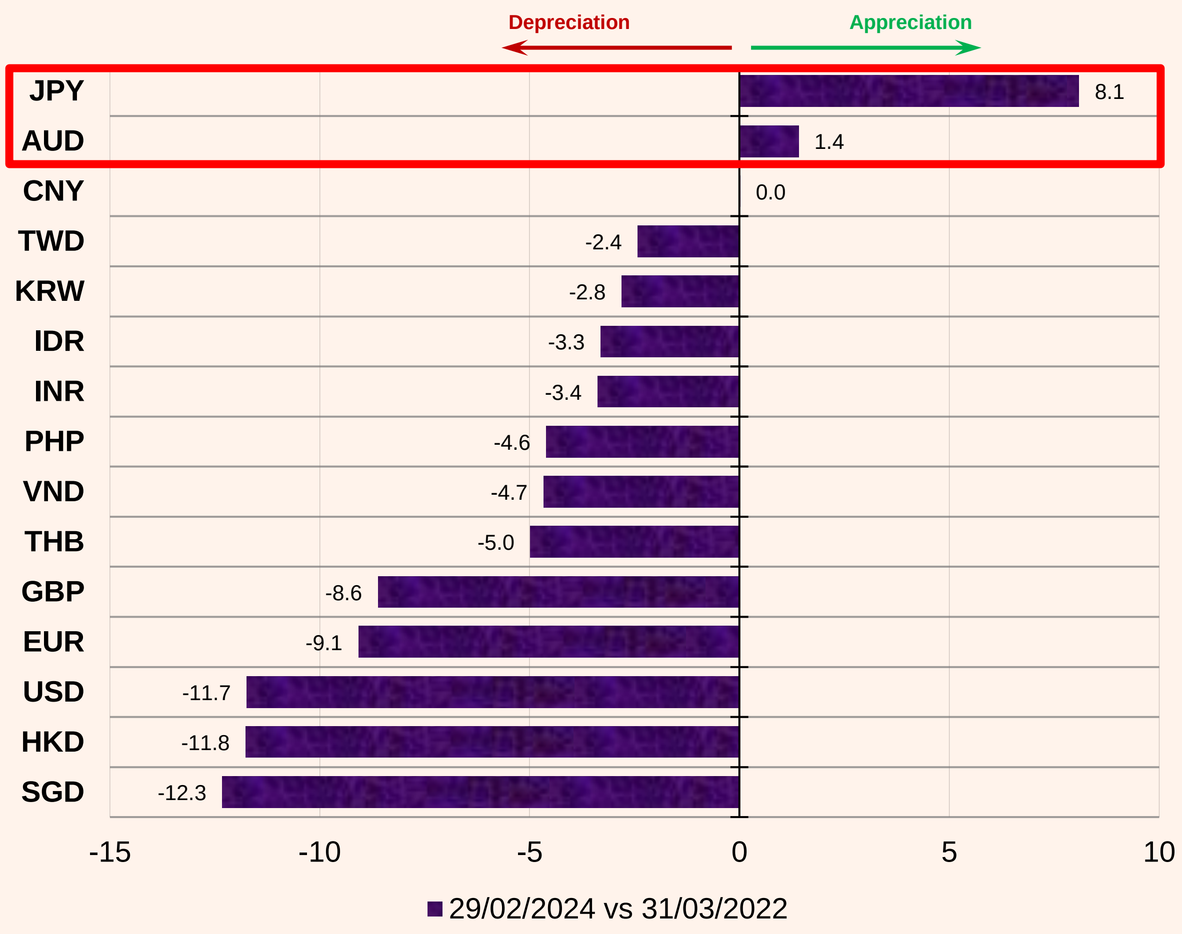
The ringgit's performance since de-pegging in 2005

Event	Year	Period	BNM Overnight Policy Rate (end-period)	Federal Funds Rate (end-period)	Ringgit (monthly average)	
RM Depeg	2005	Jun 2005	2.70	3.25	3.8000	
Global Financial Crisis	2008	Apr 2008	3.50	2.25	3.1621	+20.2%
	2009	Mar 2009	2.00	0.25	3.6730	-13.9%
	2011	Aug 2011	3.00	0.25	2.9853	+23.0%
Oil Price Crash	2014	Aug 2014	3.25	0.25	3.1784	
	2016	Jan 2016	3.25	0.50	4.3481	-26.9%
The COVID-19 pandemic	2020	Jan 2020	2.75	1.75	4.0797	
		Apr 2020	2.50	0.25	4.3553	-6.3%
The Fed Rate Hike (Mar 2022)	2022	Feb 2022	1.75	0.25	4.1877	
	2024	29 Feb 2024	3.00	5.25-5.50	4.7630	-12.1%

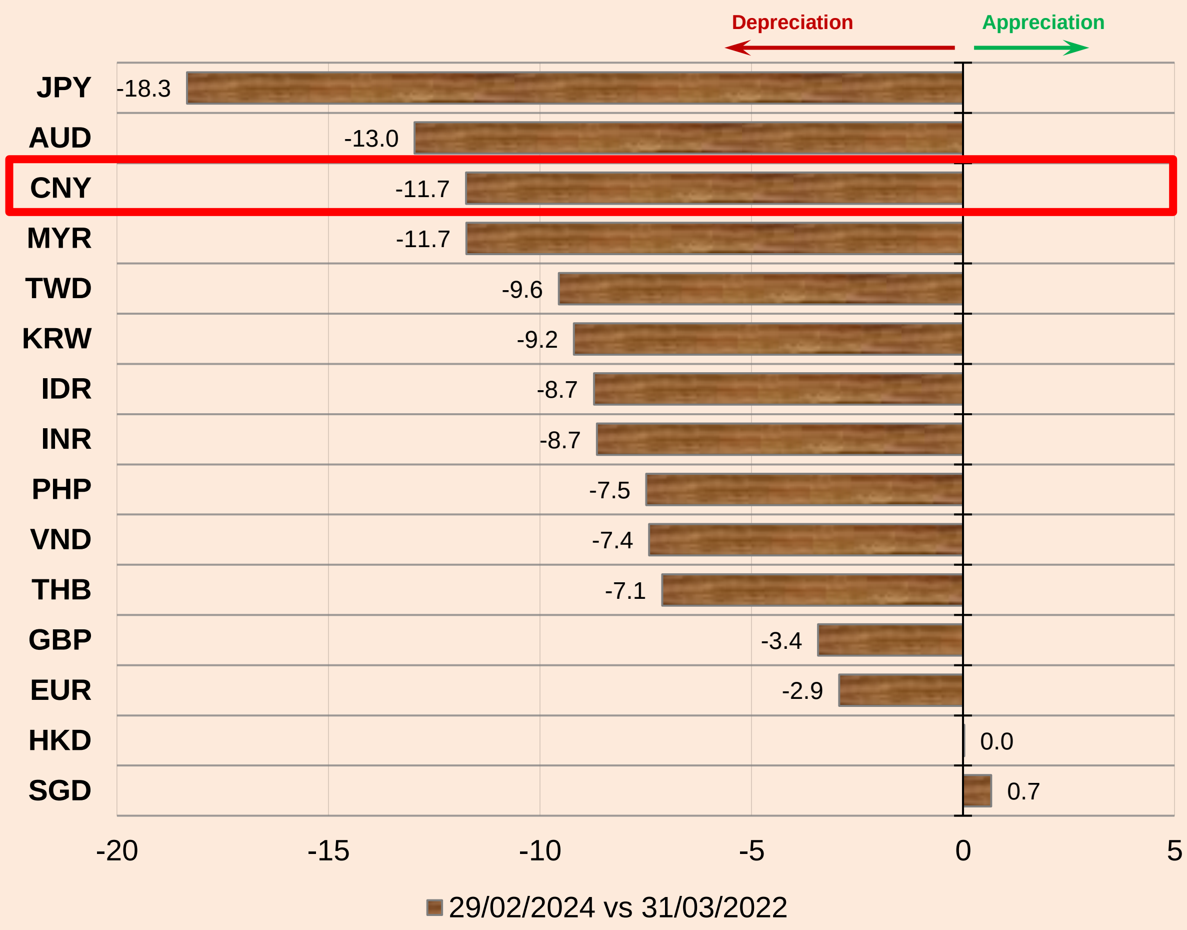
Note: The monthly exchange rate is based on the average of the daily rate.
Source: Bank Negara Malaysia (BNM)

The ringgit's movement since the Fed's Rate hike cycle starting in March 2022

The Ringgit against major and regional currencies (%)



Major and regional currencies against the USD (%)



Note: For currency other than Ringgit against USD, cross rate applied.
Source: Bank Negara Malaysia (BNM)

The ringgit is massively undervalued

Have our fundamentals deteriorated?

Malaysia	External sources

Malaysia

Positive:

- **Economic growth prospects –** Growing, albeit downside risks
- **Budget deficit –** Reducing
- **Monetary policy –** OPR held steady
- **Banking system –** Strongly capitalised
- **Capital market –** Deep and diversified
- **Approved MIDA investment –** High levels

Negative:

- **Inflation outlook –** Rising
- **BOP current account surplus –** Decreasing
- **Higher repatriation of profits and dividends by FDI**
- **FG debt and liabilities –** Rising

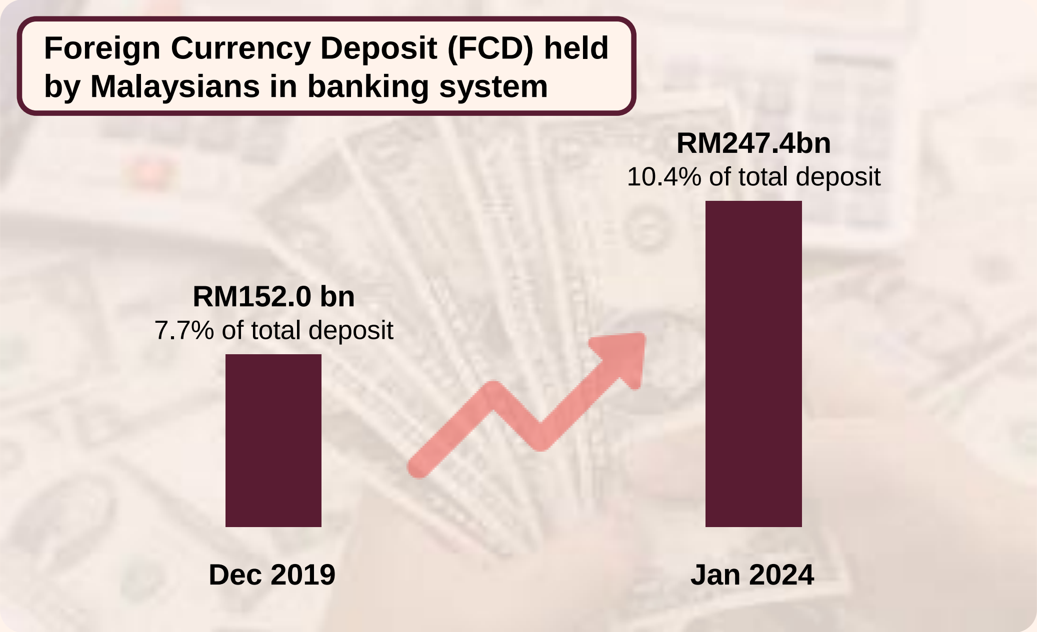
Neutral to negative:

- **FDI flows –** Uneven
- **Portfolio flows in equity and debt** – Net selling of equities; lower debt inflows; domestic residents investing abroad

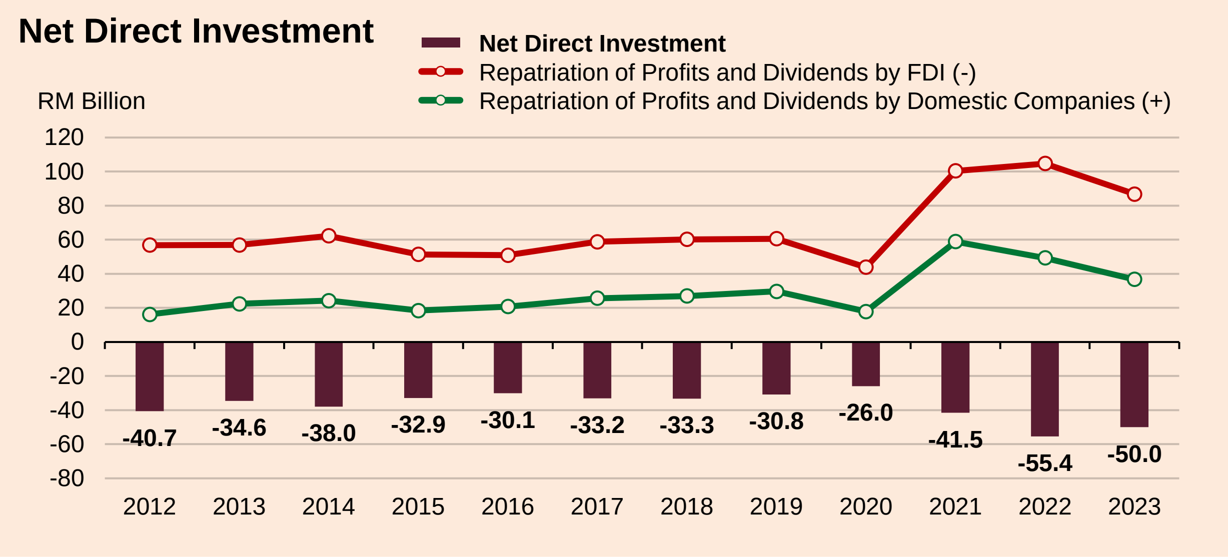
External sources

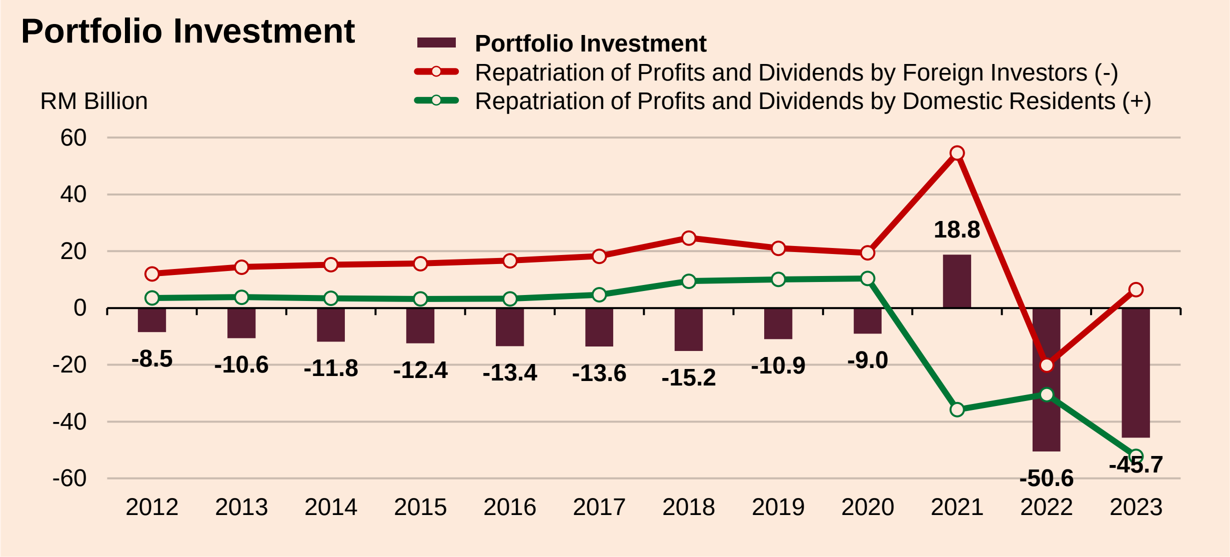
Negative:

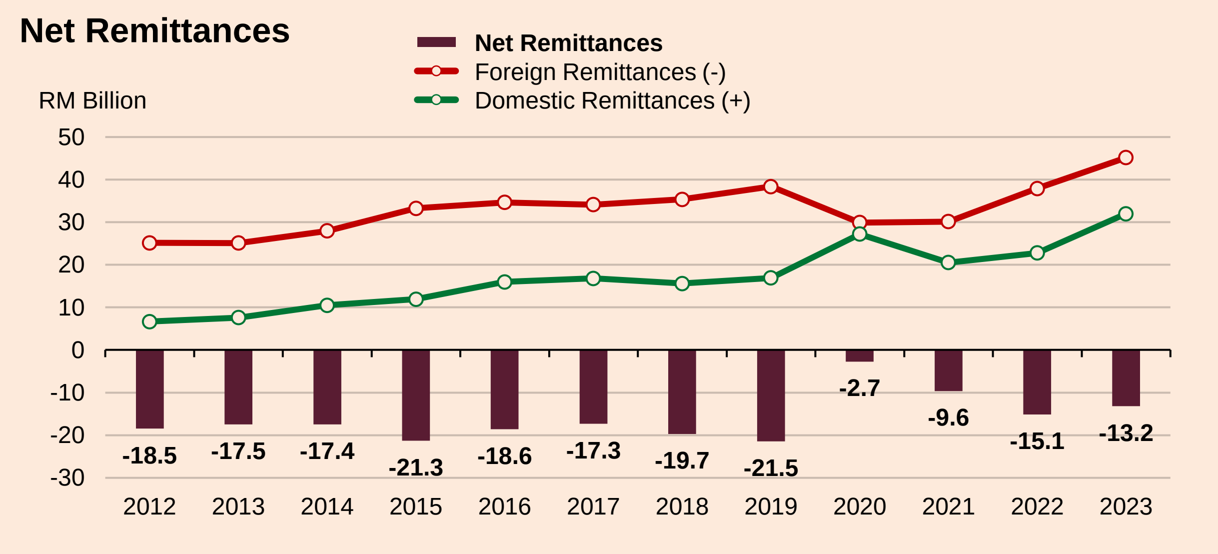
- **US interest rate to stay high and for longer**
- **Wide interest rate differential; better return on investment**
- **Market concerns and investors' sentiment**



Components of primary income outflows accelerate







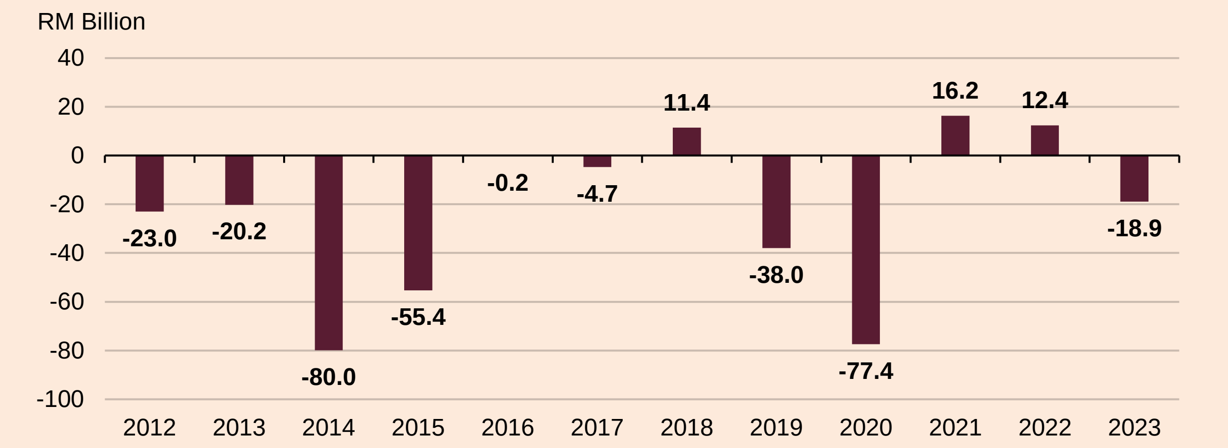
Note: Parenthesis indicates their respective relationship with the component. *Source: BNM*

Outflows from DFI and portfolio as well as foreign workers' remittances

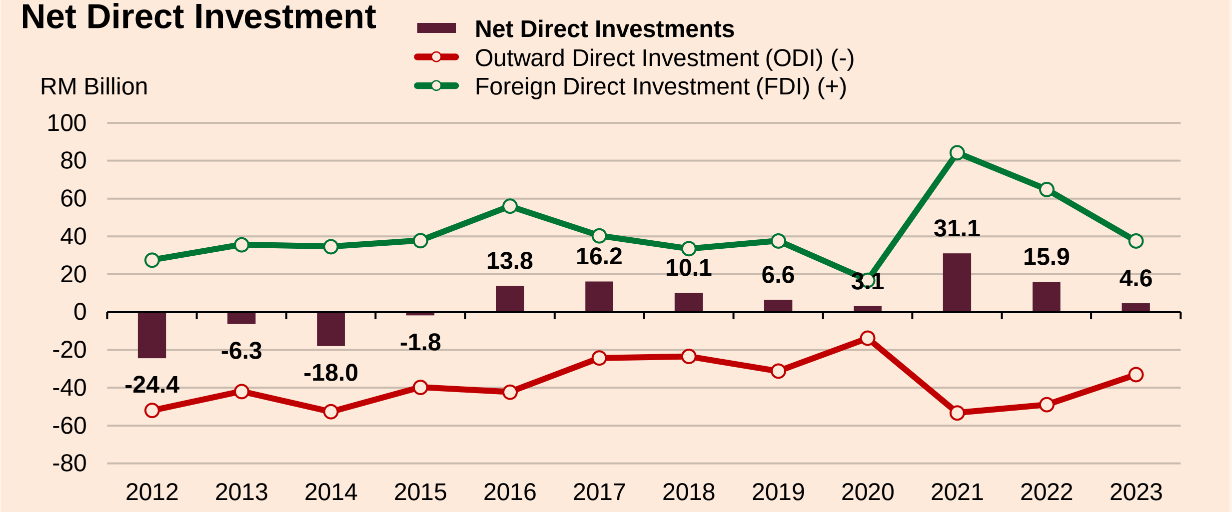
- Influx of FDI led to rising obligations to pay investment income owed to foreign investors as they repatriated interest, profits and dividends earned to their parent companies (an outflow of RM66.1 billion per year). But some earnings will be retained and reinvested.
- Offset RM28.9 billion of profits and dividends repatriated back to home by the Malaysian companies investing abroad.
- Foreign repatriation of dividends and profits earned on portfolio investment in domestic equities, investible funds and bonds amounting to RM16.5 billion per year.
- **Economic, Investment and earnings prospects, economic fundamentals, policy responses and confidence**.

Looking behind two components of the financial account

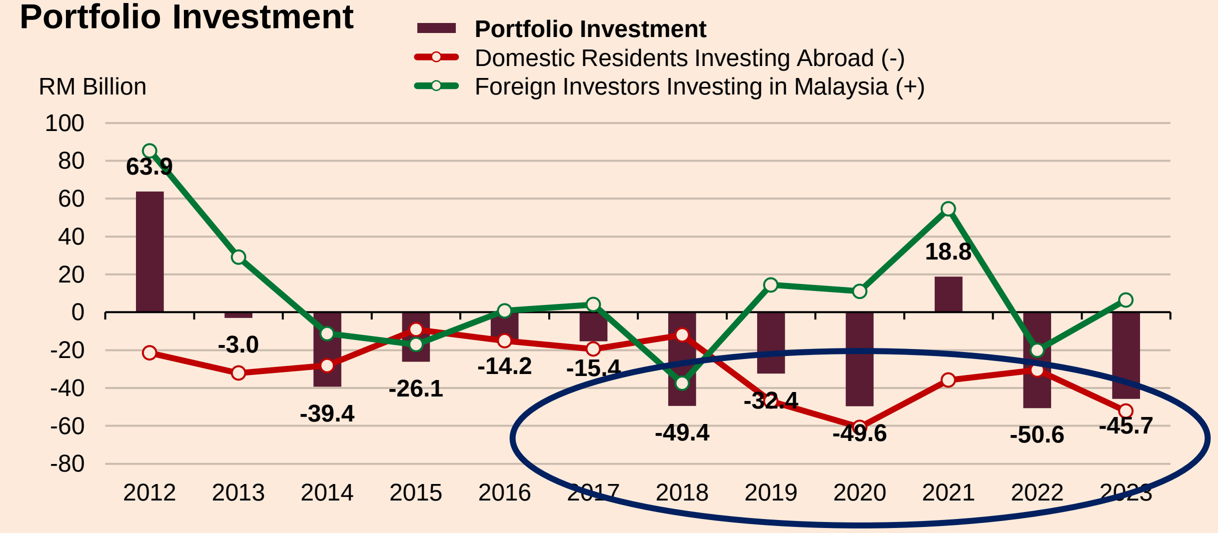
Financial Account



Net Direct Investment



Portfolio Investment



Note: Parenthesis indicates their respective relationship with the component. *Source: BNM*

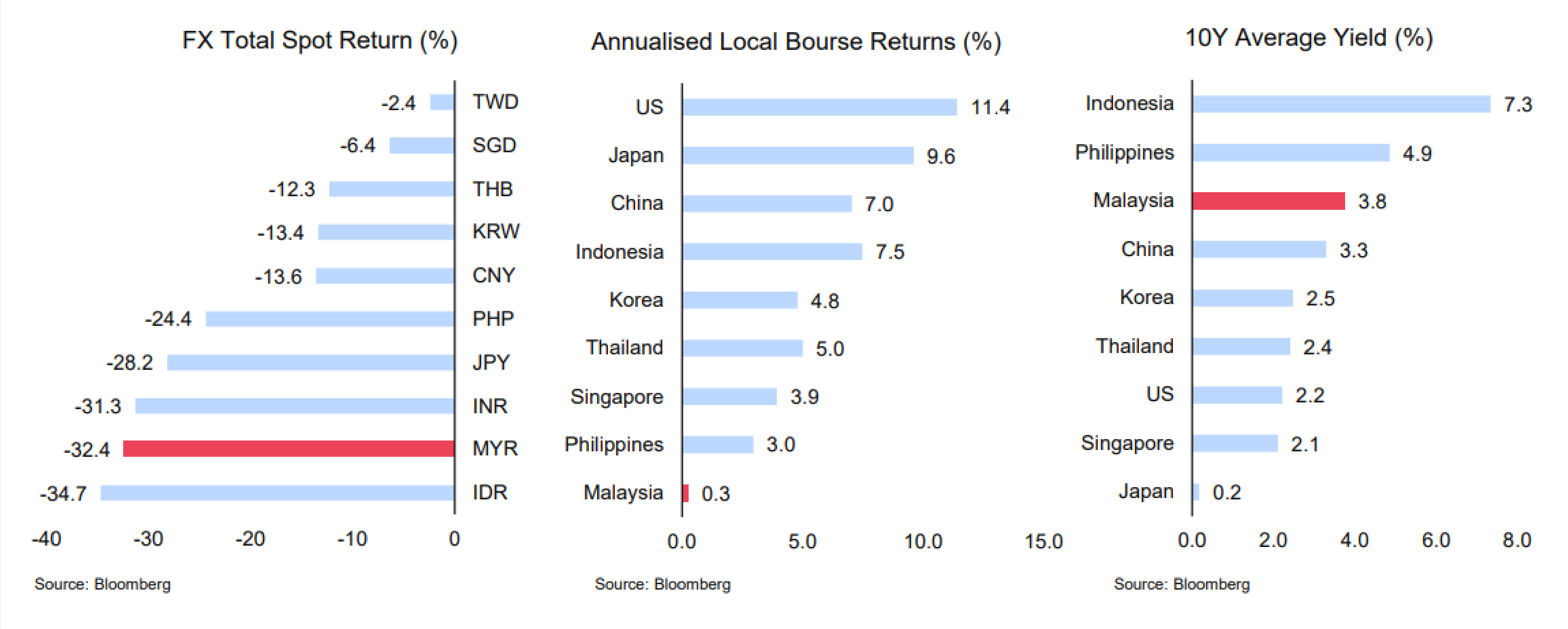
Domestic residents have piled up investment abroad

- Malaysia's **outward investment abroad** have increased substantially to RM38.1 billion per year in 2012-2023 from RM19.5 billion per year in 1999-2010.
- Post the COVID-19 pandemic crisis, which saw Malaysian corporates increased their investment abroad to an average of RM45.0 billion per year in 2021-2023 from RM13.8 billion in 2020.
- After printing net inflows of RM18.8 billion in 2021, **portfolio investment in equities and bonds saw net outflows of RM45.7 billion in 2023 and RM50.6 billion in 2022**.
- **Domestic residents' portfolio outflows were larger at RM30.3 billion per year in 2012-2013**. Foreign portfolio investment recorded net inflows of averaging RM10.0 billion per year for the same period.

Returns on MYR Assets over 10-Year Period

The Ringgit Conundrum

- Will the Ringgit reverse its depreciation trend against the US dollar?
- Relative interest rate and inflation; exports performance; balance of payments
- Budget deficit and debt sustainability
- Political stability; market sentiment
- Structural reforms key to supporting the economy and ringgit



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THANK YOU

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